

Impact of GDP and Inflation on Unemployment Rate: A Study of Pakistan Economy in 2000-2010

MUHAMMAD UMAIR

MBA student City University of Science and Information Technology
Peshawar Pakistan

RAZA ULLAH

Assistant Professor, Islamia College University Peshawar Pakistan
Email: roheesp@gmail.com

Abstract

This study has examined the impact of inflation on GDP and unemployment rate in Pakistan. It was a longitudinal study for the period in 2000-2010. The data has been taken from secondary sources. The study concludes that inflation insignificantly influences GDP and unemployment and the correlation is negative. The correlation between unemployment and inflation is positive i.e. 0.477 and is insignificant at 10% level of significance. The correlation between GDP and unemployment rate has also been found insignificant with a value of 0.196. It is, therefore, concluded that inflation has a role which influential but for GDP and unemployment with insignificant levels in the macroeconomics factors of Pakistani economy.

Key Words: GDP, Unemployment, Poverty, Inflation

Introduction

For successive governments in Pakistan poverty stands as a single main challenge like other developing and underdeveloped countries. Presently, governmental and certain non-governmental organization have estimated more than quarter of Pakistani population living under poverty line. According to Human Development Index (HDI) 2009 report, Pakistan, Bangladesh, and India stand at 0.572, 0.543 and 0.612 respectively. This report also shows an uneven distribution of wealth in Pakistan where top 10% of the population earning 27.6% and bottom 10% earning only 4.1% of the income. There are many factors responsible for poverty in Pakistan; although in this study relation between inflation, unemployment and poverty has been studied.

Inflation and unemployment both vary from economy to economy. (Slesnic (1993). Some economies have found high inflations related to higher unemployment. Some economies have found high inflation moderately related to unemployment and others high inflation with low unemployment. Blank, R.M. (1993). Similarly some countries are in the situation where the economy is in moderate to low inflation and moderate to lower unemployment and others are moderate to low inflation but moderate to high unemployment. Therefore inflation exists in different economies differently. Chaudhary, M. and Ahmad, N. (1995).

Therefore inflation in economy exists everywhere and it would be a proper research objective for investigation. The impact of inflation on unemployment would also be critically investigated in the current study. As research student of higher studies the identification of these two variables will provide something insights into the economic problems with a critical look on the issues of inflation and unemployment and their relationship. The research study would be contributive to lay down the main reasons for the stated phenomena and critically draw some imperative statements for the improvement of the current status.

Problems Statement

Inflation, that raises the price level in a country, creates financial problems in raising the prices of commodities, services, and other factors (Rashid and Kernal, 1997). It is, therefore, found that inflation is one of the major reasons of raising the price level of different commodities. The role of inflation in the economies is found to be the cause of decline in the value of money. Therefore, inflation is creating problems in the form of raising the price level and declining the value of money. The raising value of inflation with the passage of time is to be examined in relation to unemployment to determine the phenomenon relationship statistically. The study is planned to examine the changing role of inflation with the passage of time in the economy and its relationship with unemployment.

Objectives of the Study

- To examine the role of inflation in the economy of Pakistan
- To examine the role of GDP in the economy of Pakistan
- To examine the role of unemployment in the economy of Pakistan
- To examine the influencing role of inflation in relationship to GDP
- To examine the influencing role of inflation in relationship to unemployment

Literature Review

Changes in the unemployment rate are important to explain variation in the conventional earnings or income as the rate of unemployment determines the basis of consumptions. There can be differences over the fixed ratio of unemployment but it is widely believed that the problem of unemployment in Pakistan has increased during the decade of 1990s. According to Hussain (2001) the caloric-based unemployment has, in fact, doubled from 17.4% in 1987-88 to 32.6% in 1998-99. Similar outcome have been observed on approach based about central needs and unemployment and opportunity trends. Social indicators such as literacy rate, infant mortality rate, population growth rate, access to water, nutritional items etc., all verify the above results that Unemployment weak social and human development are not only at a high level in the country but also have deteriorated over the last decade of the century. The findings also claim that there is little effect of inflation on the income and the relationship between inflation and the unemployment while the relationship with consumption was found positive. The conclusive statement about this phenomenon relationship is found was that inflation and unemployment are positively associated to each other and, therefore, both need to be realized for the remedial measure of economic disruptions (Slesnick, 1993).

Inflation

Research studies documented significant facts about the phenomenal relationships between inflation and unemployment. The quantitative results about these variables were found that inflations and unemployment are positively associated to each other (Mocan, 1995). The association between inflation rates was found to have an increasingly steady state in relation to unemployment rate. It has been calculated that one seventh magnitude of the inflation rate raises the unemployment rate and the economy. The results of the study were based on time tested aspects for the period of 1959 to 1983. The experiential results concluded important considerations for the inflation, unemployment in this regard. It was found that both inflation and unemployment lead the GDP. The constructive solutions in these studies were built as an important initiative for these economic issues. It was found significantly helpful to develop supportive policies for the solutions of the inflationary periods and overcome the unemployment in the different periods of economic cycles (Blinder and Esaki, 1978; Blank and Blinder, 1986; Blank, 1993; Mocan, 1995).

According to Slesnic (1993) inflation is the continuous raise in the price level of the economy that contribute significantly to the GDP. The unemployment level rises due to continues raise the in the production cost, selling costs, manufacturing and promotional costs, and others.

Therefore, the organizations that are providing opportunities to the employed and unemployed people are moving towards such conditions where it becomes difficult for them to survive with the employed workforce. To settle such kind of problems they go for retrenchment and downsizing strategies.

Barro (1995) finds a negative relationship between inflation and economic growth. He considers variables like fertility rate, education, etc. constant. He studied a large data sample of more than 100 economies for the period of 1960 to 1990 to assess the effects of inflation on growth. A system of regression equations was used in which many other determinants of growth were held constant. This framework is based on an expanded view of the neoclassical growth model as stated by Barro and Sala-i-Martin (1995). The study indicates that there exists a statistically negative relationship between inflation and economic growth. More specifically, an increase in the average annual inflation by 10 percentage points per year lowers the real GDP growth by 0.2 to 0.3 percentage points per year.

Bruno and Easterly (1995) address the issue of inflation and growth and find no evidence of any consistent relationship between these variables up to a certain level of inflation. They assess that the growth falls sharply during discrete high inflation crisis, above 40 percent, and recovers after inflation falls. Their experiential analysis shows that there exists a temporal negative relationship between these two variables beyond 40 percent threshold level. They conclude that there is no permanent damage to economic growth due to discrete high inflation crisis.

Khan and Qasim (1996) estimate the key determinants of inflation in Pakistan by using the annual time series data for the period 1971-1995. They divide inflation into food and non-food inflation and suggest a strong role of money supply in accelerating inflation in Pakistan. Other factors causing inflation, investigated by the researchers, are currency devaluation, value addition in agriculture sector, support price of wheat, import prices and the price of electricity.

The effect of fiscal deficit is found in association with high inflation rate while deficit to GDP ratio and the economic growth. This phenomenon is associated with unemployment and deficit economic spheres (Sousa, 2009). The economic growth, with the help of economic resource mobilization, supports corrective steps for the development and control of inflation and unemployment. The same is the case in the opposite side when economic factors are improperly managed; this stimulates inflation and unemployment which influences certain economic problems (Jamshaid, et al, 2010).

Blank (1993) provides an insight information about the stated phenomenon that low income workers gain income by increasing the work hours to perform for a specific task. The stated research study contributed more insight for low income employees and said that their income increases as they spend more work hours a work place.

Khan and Senhadji (2001) examine threshold effects of inflation on growth separately for industrial and developing countries. The data set covers 140 countries from both groups for which non-linear least squares (NLLS) and conditional least squares methods are used. The experiential results verify the existence of a threshold beyond which inflation exerts a negative effect on growth. Significant thresholds at 1-3 percent and 11-12 percent inflation levels for industrialized and developing countries have been found. The view of low inflation for sustainable growth is strongly supported by this study.

According to Cutler and Katz (1991) examined and proved that inflation and employment level are negatively correlated to each other. The influencing impact levels are also proved to be positive and significant in relation to each other. Therefore, there are other factors that affect the unemployment level, but inflation is one of the most influencing factors for the growth of unemployment level at the national level. The inflation levels from walking to running from high to higher inflation promotes step wise, in case, there are no or slow responsive initiatives. Therefore if inflation exists with control mechanism then controlled phenomenon towards the unemployment level would be recorded.

The research study of Mocan (1995) revealed very interested findings. It is observed that inflation happens continuously where the flexible wage rates are planned the unemployment and employment levels are controlled with it. Therefore, the inflation level happens, but with this strategy the unemployment is found in situation that produces limited effect on the economy. If inflation happens then immediate preplanned strategies are required to establish long lasting solutions and financial wellbeing.

Unemployment

Metin (1991) finds that unemployment is an influential phenomenon found in the economies that is negatively influenced by inflation. The research study proved important facts with the help of multivariate co integration analysis. The scale budget deficit is also seen to significantly affect the inflation. Inflation also influences unemployment in the economic spheres. The economic prospect regarding unemployment can be measured as the product of the unemployment risk in the population and the amount to which people are protected from the income unemployment risk. We have taken alternative for the unemployment risk changes in the employment rate.

According to Catao and Terrones (2003), there is a strong relationship between fiscal deficit and changing inflation. The results were reached at experiential and provided quantitative responses in the form of positive relationship between fiscal deficit and inflation. The inflation is seen to influence economic problems in the form of unemployment and economic disruptions.

The research study of the Soloman and Wet (2004) identified the effect of budget deficit on inflation in Tanzania and found that economy experienced a high inflation rate accompanied by high fiscal deficit. While Benneth (2007) says that relationship between fiscal policy is associated with unemployment in Nigerian economy. This was carried out with the help of equilibrium model and the experiential results concluded that fiscal policy influences the inflation and unemployment. While the inflation further influences the impact of the unemployment adversely, therefore, the inflation influences unemployment. Finally the fiscal policy formulation should be considered when redistribution of income in society is implemented. Volker (2005) examined the role of unemployment in the economic development. It was found that unemployment is the indicator of the economic downfall or economic crisis. Therefore, the impact of unemployment is required to be controlled and managed. In the same study unemployment has been examined in relation to inflation and it is found that inflation negatively influences unemployment. Rashid and Amjad (1997) analyzes important factors for the considerations of inflations and unemployment i.e. macroeconomic policy and their impacts on the unemployment reduction, the flow of funds and remittances all are significant variables for controlling and explaining changes in the unemployment overtime.

Zaidi (2005) says that Pakistan has overcome unemployment problems due to increasing economic development. This control was due high remittances, and activeness of the public sector organization in that period of time. The unemployment examined by IMF investigatory programs known as structural adjustment programs that highlighted the initiatives for the reduction of unemployment and control of inflation. The inflation in the stipulated period of time showed less impact on the unemployment level and made a positive contribution to the economic welfare of Pakistan.

It has been proved that unemployment level and inflation levels are associated with each other positively. Inflation levels develop financial crunch condition and thus unemployment levels rise. Inflation has a central role here. The conclusive thoughts of these influencing phenomena have been found to control the unemployment in the economy; therefore, one must control the inflation from higher position to lower. A strategy would help the economic experts to prove an opportunistic environment to the general public in the form of small changes in the price level that represents the inflation and provide job opportunities that represent the unemployment level and the control of both these represent the control of inflation factor (Danziger, S.H., and E Gottschalk 1986). The research study documented and found these conditions in the places where the people were facing cost factor associated to all general and special commodities. By using existing phenomenon of the inflation, there is the correlating association found between unemployment

level and inflation rates. The Unemployment level rise creates rise in the production costs, selling and purchasing, searching and consuming costs and inflation rates raises all kinds of costs and decreases the value of money. Therefore, a solution is strongly required to control the influencing phenomenon of the inflation that influences all the major variables and factors as an economic cycle (Horriagan and Mincy, 1993). Chaudhary and Ahmed (1995) analyzed the supply of money as source of inflation in Pakistan. According to them the source of inflation produces negative impact on unemployment. The investigation for this study proved inflation an important factor affecting unemployment. The research study further examined the phenomenal relationship as inflation is found to be a source of correlation between inflation and unemployment is found positive. Therefore if inflation declined as a response the unemployment will be controlled or overcome.

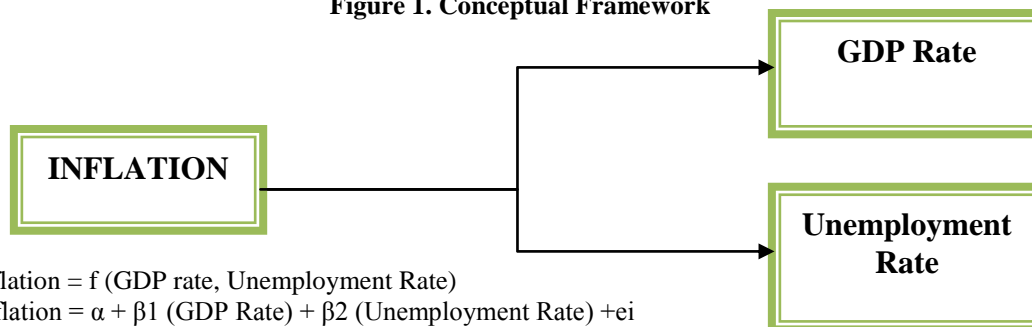
Inflation and Gross Domestic Product

Zafar and Mustafa (1998) prove a statistically positive relationship between macro factors for the economic growth of the Pakistani economy. They find that budget deficit negatively affects the GDP of the economy and at the same time it influences positively the inflation of the economy. The research study examines the private and public investments raises control on the inflations and employment opportunities that aid values as a control mechanism for unemployment. Therefore it is found that economic prosperity rises with proper guidelines, supporting strategies, and effective initiatives for the development and control of inflation and for the control of unemployment (Kemal, 1989). Zenneth (2007) investigates the economy of Nigeria. He finds that unemployment alleviation influences economic factors such inflation, deficit economy, unemployment low GDP growth rate. The same study examines role of fiscal policy in alleviating unemployment. Angelo and Sousa (2009) documents role of high inflation associated with economic problems for deficit GDP ratio, and financial instability. These variables influence the impact as response on the economic problems for community as it raises unemployment.

Using co-integration and error correction models, Malik and Chowdhury (2001) find a long-run positive relationship between GDP growth rate and inflation for four South Asian countries. Supporting the Structuralists’ view, their results also suggest that moderate inflation is helpful to faster economic growth and feed back into inflation. Thus the authors recommend moderate inflation for the growth of the economies of Bangladesh, India, Pakistan and Sri Lanka.

Gokal and Hanif (2004) review several different economic theories to develop consensus on the inflation and growth relationship for the economy of Fiji. Their results show that a weak negative correlation exists between inflation and growth, while the change in output gap bears significant bearing. The causality between the two variables ran one-way from GDP growth to inflation.

Figure 1. Conceptual Framework



- a. $Inflation = f(GDP\ rate, Unemployment\ Rate)$
- b. $Inflation = \alpha + \beta_1 (GDP\ Rate) + \beta_2 (Unemployment\ Rate) + e_i$

Whereas

- α : representing the coefficient intercept term as constant
- β : representing the slop intercept as vibrant due the multiplicative value of inflation in time series
- e_i : representing the error term of the study

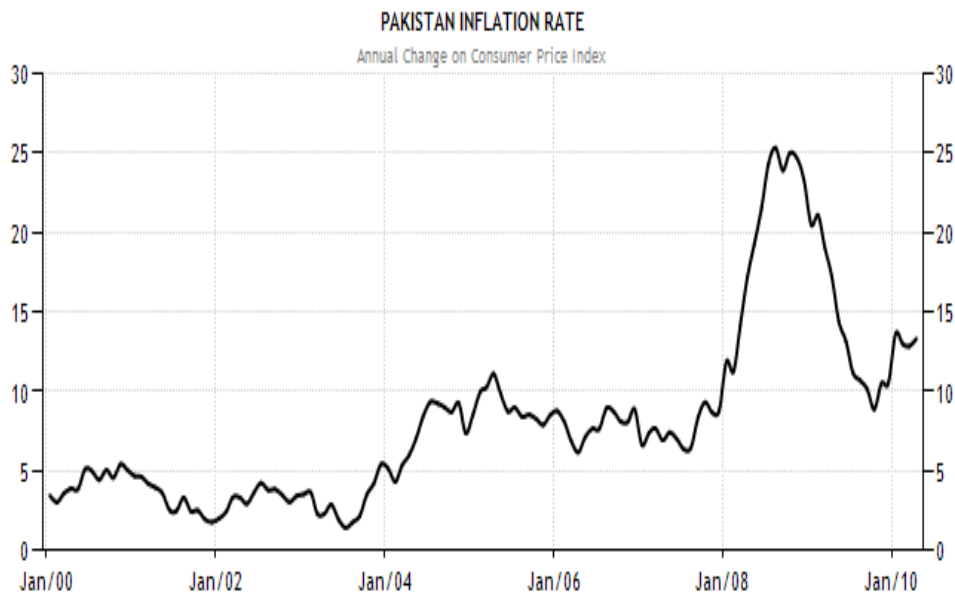
Operational Definitions of the Variables

Inflation

According to Catao and Terrones (2003) inflation is the continuous rise in the price with the passage of time and declination in the value of money.

Historically, inflation rate in Pakistan is reported by the Pakistan Bureau of Statistics from 1957 to 2010. In Pakistan, the average inflation rate is 8.04 percent, reaching the ultimate height of 37.81 percent in December of 1973 and a record low of -10.32 percent in February of 1959. In Pakistan, the most important categories in the consumer price index are food and non-alcoholic beverages (35 percent of total weight); housing, water, electricity, gas and fuels (29 percent); clothing and footwear (8 percent) and transport (7 percent). The index also includes furnishings and household equipment (4 percent), education (4 percent), communication (3 percent) and health (2 percent). The remaining 8 percent is consists of; recreation and culture, restaurants and hotels, alcoholic beverages and tobacco and other goods and services.

Figure 2. Pakistan inflation rate



SOURCE: WWW.TRADINGECONOMICS.COM | PAKISTAN BUREAU OF STATISTICS

Unemployment

The situation of economy where the labor class, professional, served and serving workforce face problems for career prospects which raise the number of employed workforce towards unemployment due to uncertainty and economic issues (Jamshaid, et al, 2010).

Unemployment rate in Pakistan decreased to 5.70 percent in the second quarter of 2010 from 6.10 percent in the first quarter of 2010. This unemployment rate in Pakistan is reported by the Pakistan Bureau of Statistics. Historically, from 1985 until 2010, Pakistan's unemployment rate averaged 5.31 Percent reaching an all-time high rate of 7.80 percent in June 2002 and a record low of 3.10 percent in December 1987. In Pakistan, the unemployment rate measures the number of people actively looking for a job as a percentage of the labor force.

Figure 3. Pakistan unemployment rate



Gross Domestic Product

GDP is the sum of the value of all the products produced in a country during fiscal year. It is found one of the indicators of the production and growth rate of the economy and play a strategic role in development, employment and the balance of payment (Volker, 2005).

The Gross Domestic Product (GDP) in Pakistan expanded 3.67 percent in the fiscal year 2008-10 from the previous year. The GDP growth rate in Pakistan is reported by the Pakistan Bureau of Statistics. Historically, from 1952 to 2010, Pakistan’s GDP growth rate averaged 5.0 percent reaching an all-time high rate of 10.2 percent in the fiscal year of 1953-54 and a record low of -1.8 percent in the fiscal year of 1951-52. Pakistan is one of the poorest and least developed countries in Asia. Pakistan has a growing semi-industrialized economy that relies on manufacturing, agriculture and remittances. Although since 2005 the GDP has been growing with an average of 5 percent a year, it is not enough to keep up with fast growing population. To make things even worst, political instability, widespread corruption and lack of law enforcement hamper private investment and foreign aid.

Figure 4. Pakistan GDP growth rate



Research Hypothesis

H1: Inflation significantly influences the GDP rate of the Pakistani economy

H2: Inflation significantly influences the GDP rate of the Pakistani economy on the unemployment of Pakistan economy.

Research Design

The present study is focused on the experiential relationship between inflation, GDP and unemployment rates of the Pakistani economy. For this purpose, the data is taken from the national statistic website of the Pakistan. The period that has been chosen for the present study is from 2000-2010. For the research study data has been gathered from the financial reports of the national statistic website of the Pakistan of the last ten years from 2000-2010. Ten years are taken because it will provide us a sound analytical position for observing inflation, GDP and unemployment rates at the national level of the Pakistani economy. The research study would be carried out on the basis of correlation, regression analysis, t-test and ANOVA model. The findings of the research study would provide statistical facts for examining the stated phenomena numerically.

Table 1. Unemployment rate and Inflation rate

Year	Unemployment Rate in percentage	Inflation rate
2000	31.1	5.7
2001	34.5	3.54
2002	34.5	3.1
2003	30.58	4.57
2004	23.99	9.28
2005	23.9	7.92
2006	22.3	7.77
2007	36.22	12

Experiential Results Approach

The data of the present study was fed into SPSS 16 for examination mathematical calculation. All the data has been refined from the financial reports of the last ten years (2000-2010). The initiatives are to be taken in a logically acceptable format to understand the working position affectively.

Experiential Results Analysis

Once the research study provides the numerical results of the stated relationship of the phenomenon then it would be important to critically elaborate the experiential findings on the basis of process tests. The procedure already mentioned would be taken in to considerations for the sake of bringing compatible link within the findings of the stated hypothesis and objectives.

Research study would be focused to provide enough material for the sake of planned topic on the basis of this result the data would be considered as a baseline to draw the conclusions and suggest important recommendations for the sake of improvement and compatible initiatives.

Analysis

On the basis of the quantitative data processed, analysis of the results from secondary data provided us important insight information for the sake of realizing the influential impact on unemployment. The findings are discussed along with critical explanation for the stated hypothesis.

Table 2. Descriptive Results

Variables	Minimum	Maximum	Mean	Std. Deviation
Inflation	3.90	20.30	8.9800	5.31743
Gross Domestic Product (GDP)	2.70	6.60	5.0000	1.30894
Unemployment Rate	6.00	15.00	8.5600	3.22394

Table 2 explains the descriptive statistics about inflation, GDP and unemployment. It can be seen that minimum and maximum values of inflation have large gap in the ten years period. The gap indicates that Pakistan's inflation is inconsistent and highly volatile. While the variation and gap between maximum and minimum values can be found comparatively low, but still inconsistent in some years. The value of the GDP can be found low while in some cases it is found higher. Therefore it is also found vibrant.

Table 3. Correlation between Inflation, GDP and Unemployment

	Variables	Inflation	Gross Domestic Product	Unemployment
Inflation	Pearson Correlation	1	-	-
	Sig. (2-tailed)	-	-	.614
Gross Domestic Product	Pearson Correlation	-.083	1	-
	Sig. (2-tailed)	.831	-	.614
Unemployment	Pearson Correlation	.477	.196	1
	Sig. (2-tailed)	.194	.614	-

The given table 3 shows the correlation between inflation and unemployment and GDP of the Pakistan's economy. The correlation between unemployment and inflation is positive that 0.477 and is insignificant at the 10 % level of significance. The correlation between GDP and unemployment rate has also been found insignificant with unimpressive value that is 0.196. All the findings are concluding that inflation rates with the given secondary data found insignificantly correlation with GDP and unemployment. The given data provided statistical results for the rejection of the hypothesis of H1: Inflation significantly influences GDP rate of the Pakistan economy and H2: Inflation significantly influences GDP rate of the Pakistan economy on the unemployment of Pakistan economy.

Table 4. Model Fit Between Inflation Rate, GDP and Unemployment Rate 2000-2010

Model Fit Between Inflation Rate and GDP			
R-Square	Adjusted R-Square	F-test	Significance Level
.007	0.135	0.049	0.831
Model Fit Between Inflation Rate and Unemployment Rate 2000-2010			
R-Square	Adjusted R-Square	F-test	Significance Level
0.228	0.117	2.062	.194

The table 4 explains correlation between inflation and GDP and Inflation and unemployment rate. The findings are showing that only 0.7 percent variability has been recorded in the dependent variable GDP due to inflation. The value of F-test is found as below the standard value of rule of thumb 4.00 and significance level is just 0.8321. All these findings are disclosing that model is not satisfactory. The other part of the table 4 explains the model fitness between inflation and unemployment rate. Here it is found that 22.8 percent variability in unemployment rate is due the inflation during the time series data from 2000 to 2010. The research findings are providing information about F-test 2.062 and which is below the standard 4.00 i.e. the level of significance is just above the lower level of the significance, therefore, it can be concluded that the model is unsatisfactory between inflation and GDP and inflation unemployment rate.

Table 5. Regression Results

REGRESSION RESULTS BETWEEN INFLATION AND GDP			
Variables	Beta	T-test	Significance Level
(Constant)	4.987	5.756	.001
Inflation	-.019	-.221	.831
REGRESSION RESULTS BETWEEN INFLATION AND UNEMPLOYMENT			
Variables	Beta	T-test	Significance Level
5.738	2.295	2.501	.041
.306	.213	1.436	.194

The given table 5 shows the statistical results for regression tests. The regression results between the two variables inflation and GDP shows a negative unit change from inflation. The findings are proving the phenomenon in such way that one unit change in inflation brings negative 0.019 unit change in GDP. But the value of t-test is found below the tabulated or standard value of the rule of thumb.

Finally for the significance level, it can also be observed to be highly above the required level that is 0.831, therefore, the findings are providing statistical grounds for the rejection of proposed hypothesis H1: Inflation significantly influences GDP rate of the Pakistan economy. On the other hand, the regression between inflation and unemployment is found to show a positive unit change from inflation.

The findings are proving the phenomenon in such way that one unit change in inflation brings positive 0.213 unit change in unemployment. But the value of t-test is still below the tabulated or standard value of the rule of thumb. Finally for the significance level is also highly above the required level that is 1.436, therefore, the findings are providing statistical grounds for the rejection of proposed hypothesis H2: Inflation significantly influences GDP rate of the Pakistan economy on the unemployment of Pakistan economy.

Discussion

Experiential results as evidence proved the relationship between inflation GDP and unemployment as influencing each other at insignificant level. The results of the quantitative outcome proved that inflation is one of vibrant and influential phenomenon in the economy of Pakistan. The inflation needs to be considered as one of the important factor for the economies to consider it towards strategic economic decisions. The quantitative factors of the economies are mainly to be considered for the strategic decision to lead the rational approaches in the economic decisions.

Discussions of the Experiential Results of the Study

The research outcomes proved the effect orientation of the inflation for the GDP and unemployment at insignificant level. The findings proved the negative effect of the inflation for the GDP and positive effect on unemployment. The findings of the previous different researchers have also proved the role of inflation influential phenomenon towards unemployment but in contradiction with insignificance levels. The inflation is a continuously occurring phenomenon in all economies where in some economies it has a strong impact where it is affecting highly the level of employment; price level, daily usage items, discount rates and expenditure costs. The findings proved the influential relationship between inflation and unemployment conditions, but in our economic condition it is proved as insignificant. It could be concluded that in our economic spheres, inflation should be examined in more detail with some other variable to examine its inside condition more in details. The present research also proved as compatibility with the research studies point of view of its impact or effects on influence level (Zafar and Mustafa (1998); Chaudhary and Ahmed (1995); Zenneth (2007); Angelo and Sousa (2009); Jamshaid et al (2010); Blank and Blinder, 1986; Blank, 1993; Mocan, 1995), but from significance level is in contradiction in our economic conditions.

Conclusion

The conclusive outcome of the research study is that inflation is found as insignificantly influential for GDP and unemployment with negative correlation. The value of F-test found as very low and below the standards values of rule of thumb value of 4.00 while the value of R square is found with very limited variation that is 0.70 and 22.8 percent from the inflation to GDP and unemployment. It is, therefore, concluded that inflation possess a role which is influential but for GDP and unemployment with insignificance levels in macro-economic factors of the Pakistan.

Recommendations

The research study at quantitative level provided some useful insights, but it also needs to be familiar for the prerequisite objections. The understanding of this phenomenon is important for the financial rationalism and impressive results. Therefore as researcher I am going to recommend some considerable recommendations for the sake of desired quantitative outcomes. These are as under,

Inflationary outcomes are highly deviating year wise

Pakistan's inflation rates are highly deviating year wise due to uncertainties in our economic setups. Other quantitative factors' outcomes in Pakistan are in a weak economic condition and highly volatile that needs to be realized for the establishment of valid economic policy for the control of inflation.

Financial Precautionary initiatives for the control of contingencies

Uncertainties are associated in every economy and everywhere, but some economies face these contingencies and economic problems more often than others. The economies like Pakistan, Afghanistan, Bangladesh and other developing countries are facing hyperinflation and immeasurable performance. In this kind of situation financial precautionary initiatives required to be taken into considerations to manage the inflation for negative outcomes.

Sound Monetary and Fiscal Policies

Monetary and fiscal policies are guiding the financial behavior and procedure in terms of flow of money from one unit to another unit. The flow of money in different sectors or departments of economies needs to be properly managed and examined for valid economic decision and measures. Therefore the monetary and

fiscal policies of Pakistan are playing a key role for the control of inflation and inflationary negative outcome control and also play a vital role to promote the employment conditions in Pakistan.

Financial investigation for controlled and uncontrolled Inflation for rationalized approaches

Analysis with rational point of views provides in depth overview and understanding of the influential phenomenon of any action, factor or steps in life. Therefore, planning for inflation along with right approaches needs to be considered as important for valid and long lasting impacts to come up with rationalized decisions. Therefore, the research studies on the application side need to be considered for this sake and improved results. This type of preplanned approach would add value to get the right information on the right time for right decisions for the control and management of inflation.

References

- Angelo, L. and Sousa, R. (2009).The determinant of public deficit volatility.*European Central Bank Working paper series*, (No. 1042).
- Barro, R. J. (1995). Inflation and Economic Growth, *NBER Working Paper 5326*.
- Bruno, M. and W. Easterly (1996). Inflation Crisis and Long-Run Growth, *Journal of Monetary Economics*, 41, 1
- Benneth, O. (2007). Fiscal policy and poverty reduction: some policy options for Nigeria, African Economic Research Consortium. *Aerc research Paper*, (164).
- Blank, R.M. (1993) "Why Poverty Were Rates So High in the 1980s?" in Dimitri B. Papadimitriou and Edward N. Wolff, eds., *Poverty and Prosperity in the USA in the Late Twentieth Century*. New York: St. Martin's Press, Inc., pp. 21-55
- Blinder, A.S and H.Y Esaki.(1978). Macroeconomic Activity and Income Distribution in the Postwar United States.*Review of Economics and Statistics*, vol.6 (no.4), pp.604-09.
- Catao, L. and Terrones, M. (2003).Fiscal deficits and Inflation.*IMF working paper series*, 3 (65).
- Chaudhary, M. and Ahmad, N. (1995).Money Supply, Deficit and Inflation in Pakistan.*Pakistan Development Review*, 34, pp. 945-956.
- Cutler, D.M and L.F. Katz.(1990). Macroeconomic Performance and the Disadvantaged.*Brookings Papers on Economic Activity*, vol.2, pp.1-61.
- Danziger, S.H and E, Gottschalk. (1986). Do Rising Tides lift All Boats? The Impact of Secular and Cyclical Changes on Poverty. *American Economic Review*, vol.76 (no.2), pp.405-10.
- Faria, J, R. and F, G. Carneiro (2001).Does High Inflation Affect Growth in the Long-Run and Short-Run.? *Journal of Applied Economics*, 4 (1), 89-105.
- Ghosh, A. and P. Steven (1998).Warning! Inflation May Be Harmful to Your Growth, *IMF Staff Papers*, 45(4), 672-710.
- Gokal, V. and S. Hanif (2004).Relationship between Inflation and Economic Growth, Economics Department, *Reserve Bank of Fiji, Suva, Fiji, Working Paper2004/04*.

- Horrigan, M.W and R.B, Mincy. (1993). The Minimum Wage and Earnings and Income Inequality, in Sheldon H. Danziger and Peter Gottschalk, eds. *Uneven Tides: Rising Inequality in America*. New York: Russell Sage Foundation, pp.251-75.
- Jamshaid, R., Iqbal, A., Siddiqui, M. (2010).Cointegration-Causality Analysis between Public Expenditures and Economic Growth in Pakistan.*European Journal Social Sciences*, vol.13 (no.4).
- Jorgenson, D.W and D.T. Slesnick.(1987, April).Aggregate Consumer Behavior and Household Equivalence Scales.*Journal of Business and Economic Statistics*, vol.5 (no.2), pp.219-32.
- Kernal, A. (1989).Fiscal Imbalances as an obstacle to privatization effort.*Pakistan Development Review*.
- Malik, G. and Chowdhury, A. (2001). *Inflation and Economic Growth: Evidence from Four South Asian Countries*, *Asia-Pacific Development Journal*, 8 (1), 123-135.
- Metin, K. (1998, October). The Relationship between Inflation and the Budget Deficit in Turkey.*Journal of Business & Economic Statistics*, vol.16 (no.4), pp.412-422.
- Mocan, H.N (1995, January 7). Income Inequality, Poverty, and Macroeconomic Conditions.*paper presented at the American Economic Association Meetings*, Washington, D.C.
- .Rashid, A. and Kernal, A. (1997).Macroeconomic Policies and their impact on Poverty alleviation in Pakistan.*The Pakistan Development Review*, vol.36 (no.1), pp.39-68.
- Rizwan, S. and Kernal, A. (2006). Remittances, Trade Liberalization, and Poverty in Pakistan: The Role of Excluded Variables in Poverty Change Analysis. *PIDE working Paper*.
- Slesnick, D.T (1993, February). Gaining Ground: Poverty in the Postwar United States.*Journal of Political Economy*, vol.101 (no.1), pp.1-38.
- Solomon, M. and Wet, A. (2004). The Effect of a Budget Deficit on Inflation: The Case of Tanzania. *SAJEMS NS*, vol.7 (no.1).
- Volker, T. (2005).Tanzania's Growth Process and Success in Reducing Poverty.*IMF working Paper*.
- Yaya, K. (2010). Budget Deficits and Economic Growth: Causality Evidence and Policy Implications for WAEMU Countries, *European Journal of Economics, Finance and Administrative Sciences*, ISSN 1450-2887 (no.18).
- Zafar, Z. and Zahid, M. (1998).Macroeconomic determinant of economic growth in Pakistan.*The Pakistan Development Review*, vol. 37 (no.2), pp.127-148.
- Zaidi, S.A (2005). *The Issues in Pakistan Economy*.Oxford University Press, Karachi.